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United Nations Office for Project Services

Implementation of the 2003 budget*

Report of the Executive Director

I. Introduction

1. The present report is submitted to the Executive Board through the Management Coordination Committee (MCC) of the United Nations Office for Project Services (UNOPS), pursuant to paragraph 2 of decision 2003/12 of 13 June 2003 and paragraph 7 of decision 2003/27 of 12 September 2003. It provides projected income, expenditure and level of the operational reserve for 2003, on the basis of 31 October 2003 estimates, and preliminary projected expenditure and income for 2004.

2. The MCC has reviewed and fully supports the change management plan of the Executive Director, starting with the recruitment of a new senior management team for UNOPS. Upon confirmation of the new UNOPS management team in February/March 2004, UNOPS will detail its organizational structure for each division and at the same time review overall resource requirements for the change process, taking into account the financial implications of the restructuring, in tandem with all other financial performance indicators. Subsequently, the revised 2004-2005 budget estimates will be submitted, through the MCC, for approval by the Executive Board at its annual session in June 2004.

3. The Executive Board may wish to take note of the financial projections contained in the present report.

* The latest MCC meeting dedicated to the final consideration of UNOPS reports to be submitted to the Executive Board was held on 9 December 2003.

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II. 2003: Actual financial data at 31 October and year-end projections

(Reference: Table 1. Projections of project expenditures and income for the biennium 2002-2003 as of end October 2003)

Project delivery

4. As of 31 October 2003, delivery under the project portfolio reached $412 million. Owing to the early closure of 2003 accounts, the redeployment of human resources for contract amendment activities under the United Nations Office of the Iraq Programme (UNOIP), the additional demand on staff for Enterprise Resource Planning (ERP) training and some related slippage in delivery, a cautious assessment indicates that the 2003 project delivery will be $460 million or 95 per cent of the target of $484.4 million.

Income

5. It is projected that, based on an estimated delivery of $460 million, the total income for 2003 will be $63.5 million, consisting of: (a) income from implementation of project portfolios of $31.3 million; (b) service income of $11.6 million; (c) non-recurring income of $19.5 million from UNOIP contract amendments; and (d) other miscellaneous income of $1.1 million.

Administrative expenditures

6. It is estimated that total expenditure as of 31 December 2003 is $49.2 million, of which $44 million pertains to recurring administrative expenditure and $5.2 million for non-recurring expenses. While the recurring income of $44 million is slightly lower than the approved level of $44.5 million owing to post vacancies, the total non-recurring expense is $5.2 million. This significant increase is attributed to the UNOPS share of the ERP system configuration and initiation costs, the one-time settlement for outstanding reimbursement to United Nations and UNDP for central administrative services and costs associated with UNOIP activities.

Level of operational reserve and fund balance

7. The 2003 year-end fund balance is projected to be $18.5 million, comprising an operational reserve of $4.2 million and a $14.3 million working capital fund.

III. Prospects and preliminary projections for 2004

(Reference: Table 2. Projections of project expenditures and income for 2004)

8. Pursuant to Executive Board decision 2003/27, and following the recommendations set out in the final report on the independent review of

UNOPS (DP/2003/40), the Executive Director has initiated the internal change process in the areas of: (a) business acquisition process and strategy; (b) enhancement of mission, vision and values; (c) project management and pricing; (d) organizational structure; and (e) business process improvements. Details on change process development, strategies, implementation timelines and cost estimates are reported in DP/2004/7.

Project delivery

9. The projected 2004 project delivery is $485 million, which is extrapolated from the already approved 2004 portfolio of $389 million and pipeline business of approximately $602 million for 2004 and beyond. This indicative figure is likely to be affected by aggressive business acquisition initiatives to be pursued early in 2004 and by implementation of the change management process.

Income

10. Estimated 2004 total income is $44.0 million, which is composed of: (a) income from portfolio implementation of $35.0 million; (b) service income of $8 million from the provision of supervision and loan administration services to International Fund for Agricultural Development projects and from the Global Fund to Fight AIDS, Tuberculosis and Malaria, for which UNOPS has been selected Local Fund Agent in various countries; and (c) rental income from subleasing of UNOPS headquarters premises, interest income and other miscellaneous income totalling $1.0 million.

Expenditures

11. Pending the finalization of the implementation plan on restructuring, the indicative 2004 expenditures total $56.7 million, which is inclusive of non-recurring expenses of $12.7 million – including $4.1 million for the roll out of wave two of ERP development and $8.4 million to implement the change management process. The $8.4 million change management budget, as noted the table 'Annotated summary of budget estimates' on page 10 of DP/2004/7, takes into account: (a) reassignment of staff within the realigned organizational structure, in particular the newly integrated, decentralized regional offices, re-profiling of general service staff and costs associated with possible separation; (b) initial organizational costs for office equipment and furniture; (c) investment in portfolio development (business acquisition) and business process improvements in project management and performance management; (d) new technology infrastructure and capacity development in support of knowledge management, communication and Time Reporting Systems; and (f) capacity-building through training to meet the UNOPS transformation challenge. The $8.4 million budgeted for the change management process is indicative, and as necessary will be reassessed and submitted through the MCC to the Executive Board at its annual session in June 2004.

Table 1. Projections of project expenditures and income for the biennium 2002-2003 as of end October 2003

(in millions of United States dollars)

	Approved 2002-2003	Actual 2002	Approved 2003	Projection 2003
Delivery Project portfolio	**969.5**	**485.1**	**484.4**	**460.0**
Income				
Income from implementation of project portfolio	70.7	35.4	35.3	31.3
Income from "services only"	15.1	6.9	8.2	11.6
Other income	2.4	1.4	1.0	1.1
Total recurring income	**88.2**	**43.7**	**44.5**	**44.0**
Non-recurring income – UNOIP contract amendments				19.5
Total income	**88.2**	**43.7**	**44.5**	**63.5**
Expenditure				
Administrative expenditures	**88.0**	**43.5**	**44.5**	**44.0**
Non-recurring administrative expenditures				
Separation costs	1.4	1.1	0.3	0.3
Provision for doubtful accounts	0.6	0.6		
Partial ERP system investment cost and other	0.7		0.7	4.9
Non-recurring expenditures				
Total expenditures	**90.7**	**45.2**	**45.5**	**49.2**
Recurring income in excess of recurring expenditure		**0.2**		-
Total income in excess of total expenditure				**14.3**
Balances carried forward				
Operational Reserve	3.2	4.2	3.2	4.2
Working capital				14.3
Total fund balance	3.2	4.2	3.2	18.5
Movements on the operational reserve				
Operational Reserve brought forward	5.0	5.0	4.2	4.2
Direct charge to operational reserve	(2.7)	(1.7)	(1.0)	
Savings from liquidation of prior year unliquidated obligations	0.7	0.7		
Transfer to operational reserve	0.2	0.2		
Operational reserve balance	**3.2**	**4.2**	**3.2**	**4.2**

Table 2. Projections of project expenditures and income for 2004

(in millions of United States dollars)

		Approved 2004-2005	Estimated 2004
Delivery	Project portfolio	**970.0**	**485.0**
Income			
	Income from implementation of project portfolio	70.0	35.0
	Income from "services only"	16.0	8.0
	Other income	2.0	1.0
	Total income	**88.0**	**44.0**
Expenditure			
	Recurring administrative expenditures	**88.0**	**44.0**
	ERP Wave 2 – Implementation		4.1
	Change management		8.4
	Total expenditures	**88.0**	**56.5**
	Recurring income in excess of recurring expenditure		**0.0**
	Total expenditure in excess of total income		**(12.5)**
Balances carried forward			
	Operational reserve	4.2	4.2
	Working capital beginning balance		14.3
	Total expenditure in excess of total income		(12.5)
	Transfer to operational reserve		1.8
	Total fund balance	**4.2**	**6.0**
Movements on the operational reserve			
	Operational reserve brought forward	3.2	4.2
	Transfer to operational reserve	1.0	1.8
	Operational reserve balance	**4.2**	**6.0**